

MCI WorldCom and Sprint perceive substantial opportunities to offer consumers additional services as part of an "all distance" package. Such additions to the package increase customer satisfaction and thus loyalty both for the existing services and the incremental services.<sup>143</sup> Adding wireless and/or Internet/data services to the package also "provide[s] potential single source billing and customer service benefits to carriers and consumers."<sup>144</sup> The enhanced wireless and broadband assets and expertise of post-merger WorldCom will allow it to include those services in packaged offerings for that substantial portion of consumers who desire such packages.

Moreover, as new technologies are developed and deployed, some of these services will not only be demanded together, they will be supplied on an integrated basis. As broadband

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<sup>143</sup> See, e.g., Wall Street Transcript Corporation, "Roundtable Forum: The Wireless Industry," TFN Investext 2000402, at \*7 (Sept. 13, 1999) ("Wireless Industry Roundtable Forum") (According to one analyst, "[t]he tangible benefit for carriers with bundled services is on the retention side less churn, which is costly in communications. To acquire a customer is a lot more expensive than to retain a customer. And carriers that have experimented with bundled services have found that this is a good retention tool."); see also Warburg Dillon Read, K.C. Condon, "Telecom Services: North American Wireless Weekly," TFN Investext 2739102, at \*9 (Feb. 5, 1999) ("Condon Wireless Report") (AT&T's new bundled service plan may positively impact profitability if it "lower[s] churn and allow[s] AT&T to reduce customer service and acquisition costs."); Credit Suisse First Boston Corporation, C. Motz, "Wireless Telecommunications Svcs: the Wireless Review Issue #37," TFN Investext 2750457, at \*5 (Mar. 16, 1999) ("Motz Wireless Report #37") (In Canadian wireless market, one analyst "believe[s] that wireless providers and long distance wireline providers should align with bundle partners to reduce back office expenses and most importantly attack churn.").

<sup>144</sup> Motz Wireless Report #37 at \*6. Yankee Group Executive Summary, "Bundling: Cuddling the Communications Consumer" (June 1998) ("the strongest bundling incentive stems from consumers apparent desire to receive a single bill"); see also Merrill Lynch, Linda J. Mutschler & Paul Wuh, "The Next Generation III: Wireless in the US" at 3 (Mar. 10, 1999) (predicting an important trend where carriers provide "more bundling of services -- so that consumers have only one bill") ("Mutschler Wireless Report").

services are expanded to offer narrowband services over the same systems, packaging may become the service itself. Sprint ION is a paradigm example: it offers narrowband and broadband capabilities, on a dynamically managed bandwidth basis, allowing the customer to continuously select and alter the amount of bandwidth to be associated with a range of services including voice, Internet access, and others. Once broadband services can offer a range of services on a fully integrated basis, packaging becomes far more than an important marketing approach; it redefines the services themselves. As discussed in Section III.B., *infra*, this is already observable in the wireless industry's offerings of "all distance" mobile service.

MCI WorldCom and Sprint are not alone in their view that packages of telecommunications and related services are increasingly important options to have available. Significantly, AT&T and the RBOCs have proclaimed their interest in packaging services to offer to their customers.<sup>145</sup> AT&T has substantial wireless assets, and has gone on a \$100 billion spending campaign to make its packaging strategy possible. The RBOCs offer various packages of services to businesses and consumers.<sup>146</sup> BellSouth similarly has announced plans to restructure the company to better position itself to provide bundled services. Its new "customer markets" group will handle all sales, marketing, and customer care activities for voice, data,

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<sup>145</sup> See, e.g., Bell Atlantic News Release, "Bell Atlantic Statement on MCI WorldCom-Sprint Merger" at 1 (Oct. 5, 1999) <[www.ba.com/nr/1999/Oct/19991005002.html](http://www.ba.com/nr/1999/Oct/19991005002.html)> (noting that being able to offer a complete set of services in all markets is "the reason [Bell Atlantic is] merging with GTE").

<sup>146</sup> See, e.g., BellSouth Business Solutions, "Are Your Communications On Pace With Your Business?" (1999) <[cluser1.bellsouthonline.com/sbmemsvc/sb\\_ord\\_mpmkt.html](http://cluser1.bellsouthonline.com/sbmemsvc/sb_ord_mpmkt.html)>; Bell Atlantic, "Products and Services/Packaged Services: Prime Pak" (1999) <[www.bell-atl.com/largebiz/primepak.htm](http://www.bell-atl.com/largebiz/primepak.htm)>.

Internet, and video services on a combined basis.<sup>147</sup> Other recent transactions have been explained similarly, such as Global Crossing's acquisition of Frontier,<sup>148</sup> and Cincinnati Bell's acquisition of IXC Communications Services, Inc.<sup>149</sup> In the latter proceeding, the applicants had urged the Commission that their transaction will "significantly enhance competition in the market for full service communications services by permitting CBI to combine its significant management and financial resources with IXC's advanced nationwide network. The result: an integrated communications company capable of offering bundled local, long distance, international, fast packet, Internet and other advanced services -- at competitive prices -- to customers across the country."<sup>150</sup>

Industry analysts and experts also acknowledge the value of packaging an array of services. Morgan Stanley observes that "[p]roviding the 'bundle' is the Holy Grail of telecoms" for large telecommunications providers.<sup>151</sup> When providing service to businesses, the focus of

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<sup>147</sup> CINEWS, Kristen Beckman, "BellSouth Restructures in Effort To Bundle Services" at 1 (Oct. 22, 1999) <[www.rcrnews.com/cgi-bin/sm40i.exe?docid=100:84873&%70aramarticleid=111107](http://www.rcrnews.com/cgi-bin/sm40i.exe?docid=100:84873&%70aramarticleid=111107)>.

<sup>148</sup> See, e.g., Qwest News Release, "Qwest Communications and U S West Announce Strategic Merger to Create \$65 Billion Worldwide Company" (July 18, 1999) <[www.qwest.com/press/story.asp](http://www.qwest.com/press/story.asp)>.

<sup>149</sup> "Wireless Telecommunications Bureau, Common Carrier Bureau, and International Bureau Grant Consent for Transfer of Control of Licenses of IXC Communications, Inc. to Cincinnati Bell, Inc.," 1999 FCC LEXIS 5295 (DA 99-2300) (rel. Oct. 26, 1999).

<sup>150</sup> Application at 4, Application of IXC Communications, Inc. and Cincinnati Bell, Inc. to Transfer Control of Title II Authorizations, File No. ITC-T/C-19990804-00533 (Aug. 4, 1999).

<sup>151</sup> See Morgan Stanley, Dean Witter Industry Report, S. Flannery, "Telecommunications Services: Large Cap Company Coverage," TFN Investext 2879634, at \*14 (June 16, 1999) ("Large Cap Industry Report").

packaging is on "delivering solutions to customers to solve their communications needs, up to and including full outsourcing." Large Cap Industry Report at \*14. When marketing to consumers, carriers seek to "provid[e] some combination of local, long distance, wireless, video, and even security monitoring." Id. Moreover, among the relevant trends Morgan Stanley identifies for CLECs is that "[s]ales of bundled products are crucial in growing revenue per line, increasing product diversity, and reducing churn."<sup>152</sup> Similarly, J.C. Bradford & Co. reports that, while nonbundled providers will inevitably continue to prove successful at winning customers in specific niches through clever marketing approaches and quality customer service, "a full bundled-service offering will be critical to being a significant player in this new era."<sup>153</sup>

Other analysts have emphasized the value to carriers in adopting service plans that specifically combine long distance and wireless.<sup>154</sup> They observe that the introduction of newer combined long-distance and wireless plans by carriers such as AT&T "underscores the importance of bundling. To the extent that a player like WorldCom wants to compete against AT&T or any other player with a bundled offering, it will need to have a wireless voice play."<sup>155</sup> While

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<sup>152</sup> See Morgan Stanley, Dean Witter Industry Report, P. Kennedy, "Telecommunications Services: CLECs/Return to the New Paradigm," TFN Investext 2875625, at \*1 (June 9, 1999).

<sup>153</sup> J.C. Bradford & Co., M.A. Bacurin, "Telecommunications Services," TFN Investext 2669856, at \*3 (July 1998).

<sup>154</sup> Motz Wireless Report #39 at 2 ("[T]he opportunities for a bundled basket of wireline and wireless telecommunications services is compelling. Bundling . . . should become more important over time.").

<sup>155</sup> Credit Suisse First Boston Corporation, C. Motz, "Telecom Services: Wireless Review: Issue # 49," TFN Investext 2938852, at \*5 (Sept. 9, 1999).

packaging will not be of interest to every consumer, nonetheless, it is an important phase in industry development.<sup>156</sup>

MCI WorldCom and Sprint believe these experts and analysts to be correct in the view that some substantial portion of residential and business users will find packaging very attractive. These predictions could, of course, turn out to be wrong. But if these predictions are right, it is critical to keep in mind that this merger holds the opportunity for a facilities-based competitor -- independent of the telephone and cable incumbents -- capable of providing the full range of services. The government has eschewed calling winners and losers to date; allowing this merger will ensure that the government will not preclude efficient market outcomes.

**A. The Merger Promotes the Widespread Deployment of Advanced Broadband Services.**

MCI WorldCom and Sprint have each undertaken similar efforts to bring broadband capabilities directly to end users. The assets they have assembled will enable the combined company to extend their narrowband service offerings to broadband, and as broadband capabilities integrate voice and other narrowband services, to support their efforts to reach more customers for these services as well. In other words, they serve also to solve the 'last mile' problem.

There can be no real doubt that bandwidth is the next great leap in telecommunications services to the home. The widespread purchases of personal computers and the explosion of the Internet make it essential for the new WorldCom's national infrastructure to include broadband.<sup>157</sup>

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<sup>156</sup> See generally Wireless Industry Roundtable Forum at \*5-\*7, \*38 (bundling and consolidation major telecommunications trends).

<sup>157</sup> In its evaluation of Bell Atlantic's efforts to gain interLATA authority in New York, the U.S. Department of Justice noted that: "Clearly, an ability to offer high speed Internet

The Commission itself has noted predictions that 78 million Americans will have access to broadband technology by 2008, and further, that "broadband technologies will produce applications that will change the way consumers will communicate."<sup>158</sup> The only question is whether tomorrow's broadband to residential users will be supplied competitively, or will be controlled by the traditional telephone and cable incumbents.

AT&T and its cable affiliates are spending billions of dollars to upgrade cable facilities to permit the deployment of cable modem services to the home. There are an estimated 1 million customers of cable modem services today with availability to approximately 32 million homes.<sup>159</sup> Given anticipated upgrades and rollouts, industry observers expect there will be 1.5 million U.S. cable modem customers by the end of 1999 and an explosion to 4-6 million U.S. cable modem customers by 2002. Broadband Today at \*44. By the end of 2000, the largest cable operators collectively will have upgraded approximately 80% of U.S. households with cable modem capabilities. Id. The cost curve for cable modem services is declining as well, suggesting continued growth of this broadband outlet. The Broadband Today report explains that the DOCSIS standards adopted by CableLabs should "contribute to lower-cost modems, less complex

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access will soon be a crucial requirement for all major carriers." U.S. Department of Justice Evaluation at 23, Application by New York Telephone Company (d/b/a Bell Atlantic-New York) for Authorization to Provide In-Region, InterLATA Services in New York, CC Dkt. No. 99-295 (Nov. 1, 1999).

<sup>158</sup> FCC Chairman Kennard Releases Cable Staff Report on the State of the Broadband Industry, Report No. CS99-14, 1999 FCC LEXIS 5099, at \*10 (Oct. 13, 1999) ("Broadband Today").

<sup>159</sup> See id. at 42. The Commission has also proposed reporting requirements for broadband providers in order to collect more detailed information in this area. Local Competition and Broadband Reporting, CC Dkt. No. 99-301, 1999 FCC LEXIS 5274 (rel. Oct. 22, 1999).

and time consuming installation procedures, and potentially, self-installation by subscribers. As DOCSIS compliant modems become available at retail outlets, sales of cable modems should dramatically increase." Id. at \*41.

The local telephone industry is similarly pressing to deploy xDSL capability to customers, spurred largely by deployment of cable modem service and the competitive response of ILECs and CLECs that had demonstrated the commercial viability of converting copper loops to permit digital broadband transmission. As the Broadband Today report explains, "[t]he deployment of cable modem service . . . spurred the ILECs to offer DSL or risk losing potential subscribers to cable." Id. at \*45. There were an estimated 160,000 DSL lines in service at the end of the second quarter 1999 -- double the number of lines from the previous quarter and three times the number of lines from the fourth quarter 1998. Id. Analysts predict that by the end of 1999, over 30 million telephone lines in the United States will be qualified to support DSL services. Id. at \*47. Technological advances, such as DSL-lite, will further accelerate DSL deployment by eliminating traditional coverage area limitations and reducing installation costs. Id. at \*45-\*46. Broadband deployment is plainly growing dramatically.<sup>160</sup>

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<sup>160</sup> Alternative predictions to those noted in Broadband Today are optimistic but may actually understate the likely growth, as shown below:

**Broadband Market Share Estimates** (by households)

	<u>1999</u>	<u>2000 (est.)</u>
DSL:	122,399	782,715
Cable Modems:	558,446	1,617,611
All Fixed Wireless:	7,650	52,181
Satellites:	<u>11,475</u>	<u>78,271</u>
TOTALS	699,970	2,530,778

See NexGen Data Research (July 1999), reported in Business Week, Roger Crockett, "Where to Find Warp Speed" at 194 (Oct. 18, 1999).

Long before the merger was conceived, MCI WorldCom and Sprint each recognized the need to gain broadband access on a national basis. As the BOCs sought to deny and limit competitors access to the local telephone plant to create digital subscriber loops, and as policymakers refused to mandate access to the cable assets or to BOC advanced services equipment, each company independently sought a market-based solution to this fundamental problem. Each company turned to fixed wireless -- MMDS -- as that solution. In an independent series of acquisitions, WorldCom and Sprint each purchased MMDS- licensed companies as a competitive alternative to deliver broadband to the home and small businesses. When combined, these facilities offer broad geographic coverage capable of "seeing" 54 million households.<sup>161</sup> When further combined with use of DSL and MCI WorldCom's fiber rings, the joint MMDS assets enable an independent broadband network reaching residences and businesses throughout the country.<sup>162</sup>

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<sup>161</sup> The number of households "seen" does not account for line-of-sight problems, as discussed infra.

<sup>162</sup> MCI WorldCom also brings to the new company the experience and assets of UUNET (including xDSL-related assets described earlier), a leading provider in the Internet markets. With close to 1.5 million dial access modems globally, UUNET offers a comprehensive range of services to businesses, on-line service providers and telecommunications firms. MCI WorldCom has begun to offer local access dial-up service using MCI WorldCom's UUNET Internet network to residential consumers, including a packaged offering of long distance and Internet services. MCI WorldCom's ability to offer Internet access services will be significantly expanded by using MMDS facilities. The expertise of UUNET in advanced services combined into the new WorldCom will further accelerate the availability of advanced broadband services to businesses and homes throughout the country.



## 1. Description of MMDS

A traditional MMDS system consists of a fixed station that transmits a microwave signal omnidirectionally to numerous fixed receiving antennas.<sup>163</sup> The next generation MMDS systems -- used for two-way transmission -- will allow for point-to-point transmissions to pass back and forth among the transmitting antennae, hub stations and multiple remote transceivers.<sup>164</sup> It will provide a platform for offering broadband data, video, voice, and high-speed Internet access.

MMDS operates on microwave frequencies and thus heavily relies upon line-of-sight positioning.<sup>165</sup> Interference with other MMDS systems and line-of-sight difficulties are among the most significant technical difficulties faced by MMDS operators. Line-of-sight disruptions include geographic and climatic conditions, as well as man-made structures, all of which may cause an MDS signal to fail or fade. Amassing a sufficient amount of spectrum is among the keys to resolving these limitations. By deploying additional equipment and capabilities back in the network, signals can be cellularized to allow for more efficient use of the spectrum and more effective signal coverage.<sup>166</sup> Commercial deployment of this technology has not yet occurred.

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<sup>163</sup> See Amendment of Parts 1, 2, 21, and 43 to Provide for Licensing and Regulation of Common Carrier Radio Stations in the Multipoint Distribution Service, 45 FCC.2d 616, ¶ 5 (1974) ("MDS Authorization Order").

<sup>164</sup> See Amendment of Parts 21 and 74 to Enable MDS and ITFS Licensees to Engage in Fixed Two-Way Transmissions, 13 FCC Rcd. 19112, ¶¶ 14-18 (1998) ("Two-Way Order"), recon., 1999 FCC LEXIS 3573 (rel. July 29, 1999).

<sup>165</sup> See generally Amendment of Parts 21, 74, and 94 of the Commission Rules and Regulations with regard to Technical Requirements applicable to MDS, ITFS, and OFS, 98 FCC.2d 68, ¶ 73 (1984) ("MDS Technical Order").

<sup>166</sup> J. Restropo & N. Woods, "The 50 Kilometer Myth, Realizing Practical System Coverage" (July 1997) <[www.cableaml.com/50Kmyth.html](http://www.cableaml.com/50Kmyth.html)>.

In order to maximize efficient use of this valuable spectrum, including cellularization, a single operator must be able to control a sufficient amount of contiguous bandwidth. Sprint has estimated that in order to economically and technically enter a service market to offer broadband access via MMDS technology, it must have access to approximately 120 MHz of largely contiguous spectrum, or about twenty 6 MHz channels. Currently, the Commission has specifically allocated 13 channels for commercial MDS use, and 20 channels for educational use (ITFS). See MMDS Assigned Frequencies, attached as Exhibit 1. MMDS operators have gained access to additional spectrum by leasing rights to use ITFS excess capacity, in turn sharing commercial advancements with the educational institutions holding ITFS licenses.

It is important to note that the MMDS channel blocks comprising individual channels that are not contiguous, but rather are interleaved. Hence, the channel adjacent to channel E1 is not channel E2, but channel F1, followed by E2, F2, E3, F3, etc.<sup>167</sup> This interleaving was a logical assignment in the context of video channel distribution as a means to protect against interference, but it is plainly inefficient for purposes of aggregating bandwidth for data purposes. The new two-way rules promulgated by the FCC recognize this, and allow for channel swapping as a means to remedy this problem.

The MMDS properties owned by Sprint and MCI WorldCom are quite complementary. Each has acquired rights to spectrum across the United States, as depicted on the attached map. See MMDS PSA & BTA Map, attached as Exhibit 1. As can be seen on the map, these service

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<sup>167</sup> All E group channels, for example, would serve as guard band channels for the F group channels (and vice versa), and would therefore not be licensed in the same area.

areas tend to cover suburban and rural areas of the country, placing the new WorldCom in an optimal position to serve residential and small business users in these areas.

The MMDS industry has struggled since its inception. Both industry analysts and the FCC at various times have seen great promise in MMDS systems. For a variety of reasons, some technical, some legal, some economic, the valuable spectrum that lies in the 2 GHz range has been largely underutilized for three decades. MMDS operators have had to address difficulties in accessing video programming, attracting sufficient capital, solving technical limitations and dealing with contentious regulatory battles. Commercial enthusiasm for the service as a single-channel pay video programmer waxed and waned in the 1970s. In the 1980s, investors thought they saw great opportunities in blocks of video channels, only to see cable companies greatly outpace them in channel capacity and programming. In 1994, buoyed by additional channel capacity, program access rules and a regulatory system that looked like it would finally be able to resolve a huge licensing backlog, industry analysts predicted that the MDS industry would serve 800,000 subscribers by the end of the year, with 3.2 million subscribers by the year 2000.<sup>168</sup> But by mid-1997, the anticipated growth rate in MMDS subscribership started slipping badly, with only about 1 million subscribers representing a mere 1.5% share of national MVPD subscribership.<sup>169</sup>

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<sup>168</sup> See Annual Assessment of the Status of Competition in the Market for the Delivery of Video Programming, 9 FCC Rcd. 7442, ¶ 90 (1994).

<sup>169</sup> See id., 13 FCC Rcd. 24284, ¶ 83 (1998).

Correspondingly, MMDS operators found in 1998 that they could not meet their debt payments, causing a rash of bankruptcies and reorganizations in the industry.<sup>170</sup> The future for growth began to point to alternative uses beyond one-way video, specifically, broadband access services.<sup>171</sup>

Notwithstanding its bleak past, the future of the next generation of MMDS systems is promising. The robust propagation characteristics of microwave signals, deployed through an infrastructure that is substantial, but relatively inexpensive when compared to wireline alternatives,<sup>172</sup> make possible quick network buildouts to benefit both commercial uses and the educational uses of ITFS licensees. Nonetheless, there are substantial risks. MMDS as a means to provide broadband access enters the market behind the first two entrants -- telco DSL and cable modem -- and these competitors are fully capitalized. To provide the full range of possible services, including two-way Internet and two-way voice, technological know-how will need to be transferred from the laboratory to market. The absence of industry standards, most especially for equipment, will require close cooperation with vendors.<sup>173</sup> Interoperability standards are also

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<sup>170</sup> See Broadcasting & Cable, Elizabeth A. Rathbun, "Wireless on the Wane?" at 50 (Apr. 20, 1998). Negative press from Wall Street barraged the industry. "All of these wireless companies are on the rocks. I think the world has passed them by," said Gerard Nordberg, a New York-based investment banker. Multichannel News, Mike Farrell, "MMDS Operators CM, Heartland Fight for Lives" at 16 (Oct. 12, 1998).

<sup>171</sup> See tele.com, Michael Arellano, "MCI WorldCom Invites MMDS to the Hunt" (Apr. 19, 1999) <teledotcom.com/408/sections/tdc408technomics.html>; Radio Communications Report, Lynnette Luna, "MMDS Next Frontier for Last-Mile Access" at 1 (Apr. 19, 1999) <rcrnews.com/cgi-bin/sm40i.exe?docid=100:84873&%70aramArticleid=9388>.

<sup>172</sup> See Broadband Today at \*41.

<sup>173</sup> See generally National Wireless Electronic Systems Testbed (N-WEST) National Institute of Standards & Technology, Roger Marks, "Broadband Wireless Access for the First Mile" (May 6, 1999) <nwest.nist.gov/toc.html>. Some manufacturers have recently begun

essential, but not yet established.<sup>174</sup> These technical obstacles need to be overcome against the backdrop of fragmented spectrum, both in terms of ITFS sharing and a channelization scheme designed for an entirely different service. Nevertheless, MCI WorldCom and Sprint each saw a risk worth taking; together, WorldCom can secure that risk as well as make the future investments necessary to bring wireless broadband to market.

**2. The merger makes possible an independent provider of advanced broadband services.**

The merger of MCI WorldCom and Sprint finally brings together the necessary resources to make the MMDS potential a reality.<sup>175</sup> It does so in a context in which a third facilities-based alternative can be offered to consumers, allowing for at least in part a market-based solution to the access problems facing policymakers today. As Dale Hatfield, Chief of the Commission's Office of Engineering and Technology, has opined, "I am convinced that if this Nation is to enjoy the full, pro-competitive, deregulatory, and universal service benefits envisioned by the passage of the Telecommunications Act of 1996, we need wireless systems as full-fledged competitors in the provision of local telecommunications services. In particular, we need them not only in the

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an effort to work toward establishing standards. See New York Times, David Barboza, "New Alliance Will Promote Wireless Access to Internet" at 2 (Oct. 26, 1999).

<sup>174</sup> It has also been suggested that a combination of MMDS, LMDS and unlicensed frequency bands might effectively produce a commercial solution. See "Spectrum Combinations Explored" (Jan. 10, 1999) <[www.wcai.com/Marktech\\_3.html](http://www.wcai.com/Marktech_3.html)>.

<sup>175</sup> "As a result of the MCI WorldCom-Sprint deal, wireless is emerging as the 'fourth pipe' into the home in the battle for the consumer's telecommunications dollar." Minneapolis Star Tribune, Steve Alexander (Nov. 1, 1999) (electronic version) (including satellite as another broadband access pipe).

provision of broadband services to business customers, but also on a widespread basis to ordinary residential customers as well."<sup>176</sup>

At the local service area level, interference problems will be much easier to address as a result of the merger. While the MCI WorldCom and Sprint properties do not for the most part serve the same protected areas (a logical consequence of the FCC's licensing history which had not attempted to enable significant commercial head-to-head activity in any given geographic locale), there are issues of technical interference between service areas of MMDS licensees that can be much more readily coordinated under common ownership. The merger of MCI WorldCom and Sprint will minimize the inevitable friction among MMDS licensees, and allow for both a rationalization of their MMDS properties as well as improved coordination with ITFS licensees. See Kelley/Mercer Aff. ¶¶ 37-38, 68-70.

Viewed from a national perspective, the merger allows WorldCom to achieve economies of both scale and scope. There will be certain types of capital investment required to be expended virtually independent of the number of locations, such as research and development, the development of equipment, establishing industry standards, expenditures to develop software associated with the systems, and national advertising. A combined customer base will allow recovery of these costs over a larger customer base, lowering unit costs.<sup>177</sup> This will be especially important as volume requirements aggregated by the two companies will work to drive down the unit costs of customer equipment. See generally Besen/Brenner Decl.

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<sup>176</sup> "The Regulatory Challenges of New Wireless Technologies: Ultrawideband and Software Defined Radios," Keynote Address at 1999 IEEE Radio and Wireless Conference at 3 (delivered Aug. 2, 1999) <[rawcon.org/hatfield.html](http://rawcon.org/hatfield.html)> (emphasis in original).

<sup>177</sup> See SBC/Ameritech Order ¶¶ 207-209, 243 and discussion infra Section V.

More importantly, these lowered risks serve to accelerate deployment. Equipment manufacturers, once they are able to produce to a common set of requirements, will compete to do so. Applications vendors will similarly be more eager to address innovative applications specifically for a wireless broadband environment. And of course, these new applications can be fully shared with ITFS licensees and their students.<sup>178</sup>

The MMDS facilities, in tandem with MCI WorldCom's fiber rings and xDSL loops purchased from ILECs, will enable the new WorldCom to offer advanced broadband services, including especially Sprint ION.<sup>179</sup> For the large business markets, MCI WorldCom's fiber ring facilities will be the key distribution medium for these and other data services necessary to support the volume and speed requirements of large business users located in urban centers. In contrast, the MCI WorldCom and Sprint MMDS properties tend to be located in suburban and rural markets, allowing the merged company to reach residential and small business users located outside of the cities. While access to telco xDSL service elements will still be necessary to permit full coverage, MMDS can readily reach users served by loops longer than 18,000 feet or those behind DLCs. Systems developers have recently expressed great enthusiasm for MMDS' ability to reach customers in congested urban markets and in rural markets undeserved or unreachable

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<sup>178</sup> These advances may also serve ultimately to accelerate educational uses of unlicensed spectrum in the 2.4 MHz band now being tested under the auspices of the National Science Foundation. See "Concept for Examination of Use of Wireless Technologies for Education" <[wireless.oldcolo.com/course/testcon.html](http://wireless.oldcolo.com/course/testcon.html)>.

<sup>179</sup> Promoting advanced telecommunications services is a fundamental goal of the 1996 Act. See Deployment of Wireline Services Offering Advanced Telecommunications Capability, 13 FCC Rcd. 24011 (1998).

through wireline systems or wireless services in the higher frequency bands.<sup>180</sup> Further, as customers are initially served through MMDS, they may be migrated subsequently to fiber and xDSL, allowing the new company to efficiently extend its fiber further into the market and "re-use" the MMDS capacity for additional customers.

It is important to note that the new WorldCom's vision is not simply stand-alone broadband to each customer. Broadband capability for consumers, small businesses and large businesses greatly enhances the value of the advanced services technology above its value to any one user -- a classic demonstration of network effects. Wide deployment of broadband services to residential and small businesses as well as large business users enables networked multimedia applications, such as Sprint ION, that efficiently link employees, customers and external partners by providing virtually unlimited bandwidth to all locations -- including work-at-home and single

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<sup>180</sup> See Cisco Press Release, "Cisco Drives Industry Standards for Broadband Wireless Internet Services" at 2-3 (Oct. 26, 1999) <[biz.yahoo.com/bw/991026/ca\\_cisco\\_s\\_1.html](http://biz.yahoo.com/bw/991026/ca_cisco_s_1.html)> (quoting statement of Yougsoo Ryu, executive vice president, Samsung: "[MMDS standardization] dramatically changes the global availability of broadband Internet services. By eliminating requirements for wireline networks from the service provider to the home, we will accelerate the introduction and adoption of broadband services throughout the world"; statement of Dr. Henry Samueli, co-founder, Broadcom: "We consider this technology innovative and clearly capable of accelerating universal access to wireless broadband Internet services worldwide."). This coalition nevertheless does not include other key manufacturers, including Lucent and Nortel. See CNET News, Ben Heskett, "Cisco Looks To Jump-Start Wireless Net Market" (Oct. 26, 1999) <[news.cnet.com/news/0-1004-200-1401872.html](http://news.cnet.com/news/0-1004-200-1401872.html)> ("They need to get backing from [other manufacturers] before they can call it a standard").

Other companies have also recognized the clear need to rely upon a mix of technologies to maximize the availability of broadband access. See, e.g., ISP News, "Qwest to Launch Broadband Services" (Oct. 21, 1999) <[rcrnews.com/cgi-bin/sm40i.exe?docid=100:84873&%70aramArticleid=10400](http://rcrnews.com/cgi-bin/sm40i.exe?docid=100:84873&%70aramArticleid=10400)> (describing Qwest's planned mix of fiber, fixed wireless and DSL for broadband); Wall Street Journal, L. Cauley, "AT&T's Plans for Cable Deals Suffers Setbacks" (Oct. 25, 1999) (describing AT&T's plans to use DSL and fixed wireless in markets where it does not have cable access).



offices. This will facilitate e-commerce to create new markets, interactive distance learning for employees and students at all locations, access to a telecommuting and geographically dispersed workforce, and real-time video desktop collaboration at multiple locations. MCI WorldCom and Sprint will thus be addressing key consumer and commercial needs, including personal use, work at home, and business networks requiring access to small businesses. By maximizing geographic diversity, the combined company will improve the overall value of its services in any given locale, and improve productivity throughout the network.

Broadband platforms such as Sprint ION also integrate narrowband applications, including voice. The acceleration of MMDS construction and operation to support voice reduces the new company's dependence on RBOCs' UNE-P offerings, and helps solve the 'last mile' problem in this way as well.

The Commission has already recognized the need for national CLEC businesses and providers of advanced services to achieve national scale and scope in order to fully realize their business plans. See SBC/Ameritech Order ¶ 198 ("A number of telecommunications providers, ranging in size from new entrants to the largest firms in the industry, are beginning to offer nationwide services based on advanced services."); ¶ 243 ("For national competitive LECs, such as large interexchange carriers, that plan to offer local service on a large scale in numerous major regions, entry into various areas likely will entail common research, product development, and marketing costs that must be covered by the sum of the competitive LEC's area-specific profits."). Moreover, in light of the efficiencies of scale and scope, as well as network effects, that characterize these businesses, they are particularly vulnerable to discrimination by large ILECs. See id. ¶ 207 ("Economies of scale and scope, as well as network effects, imply that when

incumbent LECs weaken a competitive service in one region, this weakens it in other regions as well." ). One necessary solution is to continue to try to induce ILEC cooperation and safeguard against discrimination by large ILECs, as the Commission is doing. And while ILEC cooperation will remain a necessity for the foreseeable future, a more efficient solution for the long term is to seek alternative distribution methods to reduce the need for regulatory oversight. By facilitating MMDS and MCI WorldCom's local facilities as broadband delivery media, the merger between MCI WorldCom and Sprint will do just that.

The Commission has also recognized that long distance carriers have particularly strong incentives to ensure the full two-way development of MMDS technology: "MMDS systems complement these long-distance carriers' (IXC) networks, for they provide the last-mile connection to businesses and residences. Once the networks of MMDS and IXCs become fully integrated, the IXCs will have greater control of the end-to-end transmission and will be able to provide broadband services to subscribers more efficiently."<sup>181</sup> The merger precisely facilitates this outcome.

In sum, by combining the broadband efforts of the two companies, the merger will produce a company able to break open local markets with both traditional and advanced service offerings. The fiber, DSL and MMDS assets complement one another, each serving in turn to strengthen one another and the company as a whole.

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<sup>181</sup> Broadband Today at 30. In contrast, it is noteworthy that BellSouth apparently continues to use its MMDS licensed facilities for one-way full motion video services.

**B. The Combination of Sprint PCS and SkyTel Paging Will Substantially Add to the Combined Company's Ability to Serve Consumers.**

The combination of Sprint PCS and MCI WorldCom's SkyTel paging operations will also enhance the merged company's ability to offer consumers "all distance" services, landline and wireless. As discussed below, the synergies created by the merger involving these assets will improve the ability of the combined company to compete for market share currently held by both incumbent wireless carriers and incumbent landline carriers. Consumers and businesses will benefit from this competition in the form of increased choices, innovative services and packages, and lower prices.

Wireless is becoming an increasingly important vehicle for reaching customers, both residential and business. As a result of pricing plans offered by cellular and PCS firms, the local and long distance service categories have lost their significance for many wireless customers. As one industry expert has bluntly opined: "long-distance as a stand-alone market is probably dead. A lot of carriers are giving it away pretty much for free. One of the most compelling bundles today is wireless and [long distance]."<sup>182</sup> The increasing use of mobile wireless spectrum for data transmission is also significant here. And the merger will provide significant costs savings to the combined company through the sharing of transport and tower costs associated with PCS, paging, and MMDS operations.

Beginning in 1995, Sprint PCS acquired new broadband PCS licenses (for which it paid the United States nearly \$3 billion) to provide wireless services in all 50 states, the District of Columbia, Puerto Rico and the U.S. Virgin Islands. Although it commenced service only three

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<sup>182</sup> Wireless Industry Roundtable Forum at \*3 (analyst from CIBC World Markets).

years ago, Sprint PCS already serves over five million customers and its state-of-the-art, CDMA, all-digital network covers the majority of the nation's metropolitan areas, including more than 4,000 cities and communities across the country.

In its short history, Sprint PCS has become an industry leader in introducing new technologies and services. Sprint PCS introduced its latest innovation in September, the Sprint PCS Wireless Web, a wireless data service that permits customers access to the Internet using their PCS handsets. Sprint PCS is currently testing "third generation" wireless technologies that promise both to increase network capacity, enabling Sprint PCS to serve more customers with its existing spectrum and to support mobile wireless data services at transmission rates faster than ISDN services. Wireless data development in particular may fundamentally change the way Americans use both the Internet and their mobile phones, because they will be able to retrieve whatever information they may need regardless of their location.

Sprint PCS sells its services (as well as its handsets and accessories) directly to customers in over 220 Sprint PCS retail stores, through its national sales force and on the Internet. Sprint PCS also has extensive third party retail distribution arrangements with large national, mass market retailers such as Radio Shack, Best Buy, Circuit City, OfficeMax and K Mart, utilizing nearly 9,000 retail outlets nationwide. These third party distribution centers accounted for 60% of Sprint PCS sales in 1998, thereby extending significantly its retail presence.

SkyTel Communications, Inc. was acquired by MCI WorldCom on October 1, 1999. It is the nation's third largest paging carrier (based on revenues) with annual revenues of \$518 million in 1998. SkyTel has approximately a 2% share of the U.S. paging market with 1.6 million

subscribers as of 1998.<sup>183</sup> SkyTel offers a wide array of services to both residential and business consumers in the highly-competitive messaging market. It offers customers one-way paging services available on a subscriber and pre-paid basis, advanced text messaging service and two-way interactive messaging services. Moreover, SkyTel has been at the forefront introducing Internet-based messaging services. Each paging unit used on SkyTel's network has a unique Internet e-mail address that allows subscribers to receive e-mail messages, and, for those units on the Advanced Messaging Network, to originate and respond directly from the unit or through any Internet e-mail package. SkyTel provides its subscribers various other enhanced features, such as voice mail, Caller ID, and other customized information services. Moreover, SkyTel is authorized to provide air-to-ground service in 46 markets across the United States over spectrum licenses in the 454-459 MHz band. It is one of the largest providers of air-to-ground services to private general aviation aircraft in the United States.

As a result of the merger, these mobile wireless assets will be substantially strengthened as they become part of a company with greater scale and scope. In turn, their presence and capabilities will serve to support other services of the new WorldCom, as discussed below.

**1. The merger will establish a national wireless presence for the new WorldCom.**

The addition of Sprint PCS will fill a critical hole in MCI WorldCom's current service offerings by providing it with a nationwide mobile services footprint -- a suite of services already offered by some of its major competitors. This contribution to the new WorldCom's assets will

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<sup>183</sup> SkyTel holds licenses for narrowband PCS and traditional paging frequencies. There is inconsequential overlap between the companies' mobile wireless assets. Sprint LTD holds paging authorizations within its telephone service areas. MCI WorldCom also resells two-way mobile services (with less than 1% share), but has no facilities-based offering.

advance the company's ability to compete in all distance, data, paging and packages of services that include wireless services. Several analysts believe that wireless will be a "key access pipe for voice communications" and with the introduction of third generation wireless services, "will . . . become a key access pipe for data as well."<sup>184</sup> As more and more wireless subscribers use their PCS equipment to originate all distance voice and data transmissions, the importance of wireless as a means of accessing the customer grows critical.

Long distance traffic is increasingly shifting from landline networks to wireless networks.<sup>185</sup> This wireless "all distance" trend holds across all segments of the retail markets. In recent years, mobile service consumers have enjoyed decreased roaming charges and the availability of lower per-minute one-rate calling plans.<sup>186</sup> The availability of diverse price structures extends as well to subscribers with lower monthly MOUs.<sup>187</sup> These pricing plans often

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<sup>184</sup> Wireless Industry Roundtable Forum at \*3.

<sup>185</sup> See also Communications Daily, "AT&T Drops 'Tracking' Share Plan, Focuses on TCI Integration" at 2-3 (Jan. 11, 1999) (citing AT&T Analysts meeting wherein AT&T warned that consumer long distance market "will be hurt by substitution of wireless services for calling card and other long distance services"); PCS Week, "Competition Nothing to be Afraid of, Say Analysts, Even as Subscriber Growth Rates Decline" (July 22, 1998) ("The first signs of [the replacement of wireline service with wireless] are in the long-distance market, where wireless can compete with a measured service instead of essentially flat-rated local service." One PCS provider has noted that "[w]e're seeing people make the choice at home to make their long-distance calls over our phone instead of their wireline phone because it's less expensive.").

<sup>186</sup> Annual Report and Analysis of Competitive Market Conditions With Respect to Commercial Mobile Services, 14 FCC Rcd. 10145, 10155-56 (1999) ("CMRS Fourth Report").

<sup>187</sup> See id. at 10166; see also Condon Wireless Report at \*8 (AT&T's recent introduction of a bundled service, "including wireless, addresses a weak point in the company's wireless service offering for customers who use between 100 and 600 MOU per month. On the wireless front, customers can subscribe to a plan for \$30 per month that allows them to make wireless phone calls (both local and long distance) for \$0.10 per minute."). Service

include long distance minutes priced together with local calls. Given these pricing plans, many consumers use their mobile handset to originate long distance calls they once placed over landline networks.

Second, wireless is increasingly being used for data transmission.<sup>188</sup> As the Commission has noted in its report on the CMRS industry, "worldwide sales of handheld computing devices . . . used by many mobile users to access the Internet, grew by over 61% between 1997 and 1998. The wireless industry is attempting to capture a portion of the revenues generated by sales of telecommunications services used to access the Internet, e-mail, and corporate intranets through mobile wireless data services."<sup>189</sup>

Substantial growth for wireless data traffic is predicted in the next few years, fueled by the introduction of additional technologies that will support mobile e-commerce applications.<sup>190</sup> It has been predicted that the volume of annual shipments of portable Internet-enabled devices will exceed those for personal computers in 2003.<sup>191</sup> MCI WorldCom's data-oriented customers will

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plans by carriers such as AT&T have extended low per minute (\$.10) rates to lower MOU customers. AT&T 10-Q Filing at 26-27 (Aug. 12, 1999) <[www.att.com/ir/sec/10q/10q2q99.html](http://www.att.com/ir/sec/10q/10q2q99.html)> (discussing new bundled Personal Network Service that offers long distance, calling call, wireless, and personal 800 number at a single rate per minute).

<sup>188</sup> See generally Wireless Data Forum, Wireless Data Primer <[www.wirelessdata.org/primer](http://www.wirelessdata.org/primer)>.

<sup>189</sup> CMRS Fourth Report at 52-53.

<sup>190</sup> See TechWeb, Mo Krochmal, "Scientists Say E-Commerce Will Be Portable" at 2 (Nov. 4, 1999) <[www.techweb.com/wire/story/TWB19991104S0003](http://www.techweb.com/wire/story/TWB19991104S0003)>.

<sup>191</sup> See AFR Net Services, H. Zampetakis, "Goodbye PC, Hello Mobile For e-trading" at 1 (Nov. 4, 1999) <[www.afr.com.au/content/991104/inform/inform1.html](http://www.afr.com.au/content/991104/inform/inform1.html)>.

be looking to wireless for these data needs, and thus the combination of the two companies allows them to meet this market trend as well.

Third, the ability to provide a mix of service options will help support MCI WorldCom's paging business. Consumers generally consider paging and PCS to be complementary services.<sup>192</sup> Competition in the paging market extends beyond price considerations to an ability to offer a variety of services as well. Some analysts believe that a key driver "to future growth in the [paging] industry will include those service features that offer product differentiation such as advanced message and information services."<sup>193</sup> Notably, as one analyst opined, bundling paging/messaging services with other telecommunications services "may become a competitive necessity" in the future.<sup>194</sup> The new WorldCom enables this necessary growth as well. Moreover, SkyTel can take advantage of Sprint PCS towers throughout the country, thereby reducing the overall costs of finding tower sites and rentals.

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<sup>192</sup> See, e.g., CMRS Fourth Report at 41-42 (As the Commission recently noted, "a recent study by the Strategis Group states that almost one-fifth of potential turnover customers (based on a 4% churn level) are considering replacing their pagers with mobile phones. However, the same study showed an unwillingness among the 25 million users of both mobile phones and pagers to abandon their pagers. Analysts also are quick to delineate paging's advantages over mobile phones, such as size, price (monthly paging bills are, on average, about one-fourth of the average mobile telephone bill), in-building coverage, battery life, and unobtrusiveness.") (citing News Release, The Strategis Group, "Customer Churn Stirs Up Paging Industry" (Nov. 5, 1998) (other citations omitted)).

<sup>193</sup> Id. at 37 (citation omitted).

<sup>194</sup> Donaldson, Lufkin & Jenrette Securities, D.H. Leibowitz, "Broadcasting, Cable & Wireless: Media and Communication Notes," TFN Investext 2872546 at \*7 (June 4, 1999) ("Leibowitz Industry Report").



Fourth, and more broadly, many consumers may desire bundled communications services offerings that include mobile services.<sup>195</sup> Well before the announcement of MCI WorldCom's acquisition of Sprint, industry experts emphasized the value generally for carriers to adopt service plans that combine several telecommunications services, such as long distance and wireless. See generally discussion supra at pp. 76-81.<sup>196</sup>

**2. The merger will strengthen Sprint PCS as a competitor and enhance its ability to satisfy consumer demand.**

Sprint PCS is at a crossroads as it transitions from being a new entrant start-up to a more mature service provider. It continues to extend the geographic "footprint" of its service area so it can serve more markets, provide greater coverage to existing customers, and reduce its roaming expenses. Sprint PCS also is pursuing "third generation" network technologies as wireless data capabilities promise to provide a key avenue for growth in the near future.

Most of all, Sprint PCS needs to add to its 5 million customer base so it can enjoy cost efficiencies and economies of scale similar to its larger, entrenched competitors. Despite its unprecedented growth, Sprint PCS remains small relative to the major cellular incumbents: Bell Atlantic Mobile (assuming a combination with Vodaphone AirTouch) has 15 million customers; AT&T Wireless has over 10 million customers and SBC has over 10 million customers. As the

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<sup>195</sup> See, e.g., BA/NYNEX Order ¶ 112 n.222 ("We note that, according to one recent research report, nearly 80% of American households would like to receive telecommunications and information services (local telephone, long distance, cable television, cellular, paging, and Internet access) from a single provider, if the overall cost remained the same.") (citing America's Network, Peter Meade, "Is Bundling Really Better?" (Sept. 15, 1996) <[www.americasnetwork.com/issues/091596research.html](http://www.americasnetwork.com/issues/091596research.html)>).

<sup>196</sup> Credit Suisse First Boston Corporation, C. Motz, "Wireless Telecommunication Svcs: Wireless Review - Issue #39," TFN Investext 2836782 at \*2 (Apr. 13, 1999).

FCC has recognized, scale matters in the wireless business.<sup>197</sup> MCI WorldCom's extensive customer base and in particular, its strength in the commercial market, offer a ready means for Sprint PCS to expand its customer base rapidly, thus giving it the additional scale and scope it needs to compete more effectively with the larger cellular incumbents.

Sprint PCS has been largely dependent on incumbent LECs to provide transport between the PCS mobile switching centers and the public switched network. Because of MCI WorldCom's extensive fiber network, the new company will be able to move much of this transport to its own network. This will decrease Sprint PCS' reliance on incumbent LEC networks.

**3. MCI WorldCom's acquisition of Sprint PCS will enable the combined company to compete more effectively with incumbent LECs.**

Sprint PCS also will enable the new company to compete more effectively with ILECs. The Sprint PCS customer base will improve the merged company's ability to enter local wireline markets.<sup>198</sup> As the Commission noted in SBC/Ameritech, "the cellular assets that Ameritech and SBC possess in each other's regions also provide unique advantages for out-of-region entry. For instance, a cellular presence provides a ready customer base for expanding into wireline local telephony." SBC/Ameritech Order ¶ 85.

As discussed above, MCI WorldCom and Sprint hold MMDS licenses in different geographic areas that will provide the merged company with a much broader footprint. The

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<sup>197</sup> See, e.g., CMRS Fourth Report at 31.

<sup>198</sup> See Mobile Communications Report, "Bell Atlantic and Vodafone AirTouch Form U.S. Wireless Venture" (Oct. 4, 1999) (noting that one reason for Bell Atlantic's joint venture with Vodafone AirTouch was because "as customers make [the] shift to wireless for local service, [Bell Atlantic] could compete with ILECs outside of its region to become their local service provider").

Sprint PCS assets can play an important role in facilitating the deployment of MMDS. Sprint PCS operates an extensive network, utilizing national platforms such as voice mail and billing systems that the combined company can tap for its CLEC operations. The success Sprint PCS's sales force has enjoyed in growing its business so rapidly can be used to sell a broader range of services. Similarly, Sprint's nationwide network of local retail distribution outlets will complement MCI WorldCom's largely national sales force and in the process, fortify the combined company's marketing and distribution system. And, Sprint PCS' own retail stores could become an indispensable component in educating the public about the use and benefits of MMDS service.

There are other Sprint PCS assets that will strengthen the new WorldCom's ability to compete with ILECs. Although primarily a service provider, Sprint PCS also is the nation's third largest owner/manager of radio tower sites with more than 3,700 towers in over 400 cities across the country. With the merger, the new company can access these sites not only for its SkyTel subsidiary, but also to support its MMDS entry. And as important, Sprint PCS employs a pool of highly trained radio engineers who will facilitate rapid installation of MMDS facilities.

#### **IV. MCI WorldCom's Investments in Overseas Local Facilities Will Strengthen the Merged Company's Ability to Compete Internationally.**

MCI WorldCom's established operations in more than 65 countries encompassing the Americas, Europe and the Asia-Pacific regions will also support and enhance the merged company's competitive position. As discussed more fully below, the overseas operations of the new company will promote an important U.S. presence in the global marketplace, and in turn strengthen the domestic assets and operations of the new company.

MCI WorldCom operates as a facilities-based provider of voice and data communications services in 21 countries across Europe, North and South America and the Asia-Pacific region.

More specifically, in Europe, MCI WorldCom has fully-licensed operating subsidiaries in Austria, Belgium, Denmark, France, Germany, Ireland, Italy, the Netherlands, Norway, Spain, Sweden, Switzerland, and the United Kingdom. MCI WorldCom has built and operates 16 metropolitan area networks, including those in Amsterdam, Brussels, Düsseldorf, Paris, Frankfurt, Hamburg, London, Rotterdam, Stockholm, and Zurich. MCI WorldCom has national networks in France, Germany, and the United Kingdom.

MCI WorldCom's overseas communications revenues are now nearly \$1.3 billion year-to-date, and are expected to grow at substantial rates. In 1998, the company spent approximately \$1.5 billion in capital expenditures abroad, and expects to spend another \$1.7 billion in capital investments by the end of 1999.

By the end of 1999, MCI WorldCom will be able to offer a complete local, long distance and international phone service to any customer connected to the public switched network in Britain, France or Germany, and MCI WorldCom will be able to offer high-speed long distance, private line and data communications services to businesses in 45 European metropolitan areas. Other European assets include operations in Norway and the Irish Republic. The European networks have tripled to nearly 7,000 miles by the end of this year.

In the Asia-Pacific Region, MCI WorldCom is a licensed operator in Japan and Australia, where it has constructed fiber optic metropolitan area network facilities in Tokyo and Sydney, and it is in the process of constructing such facilities in Osaka and Melbourne. MCI WorldCom also has resale operations in Hong Kong. In July 1999, MCI WorldCom opened its Asia-Pacific World Center, MCI WorldCom's third master control facility that ensures seamless, reliable network service around the globe.

In Latin America, MCI WorldCom has 18 offices, with direct investments in Belize, Brazil, Mexico and Venezuela. MCI WorldCom provides an expansive array of data, Internet and voice services through its controlling interest in Embratel in Brazil and through its joint venture company Avantel in Mexico.

In addition, UUNET serves more than 70,000 businesses in 114 countries. UUNET this year announced a major upgrade to its European network, which will increase bandwidth and capability by a factor of 16 between major cities there. Its facilities extend from North America, to Europe to Asia Pacific, with 1,000 POPs worldwide.

The proposed merger will promote competition in the U.S. and around the world by strengthening the new company's ability to leverage its international telecommunications assets to more readily expand and enhance its service offerings on a global basis. First, operating from a larger customer base and increased geographic reach, the new company will be better positioned to compete for customers at home and abroad. Second, international-network-operations costs will be reduced overall by aggregating traffic at both the U.S. end and the foreign end. Sprint traffic once carried over PTT monopoly facilities will now be carried to a greater extent over the more efficient overseas networks of the merged company. Third, the additional usage of the MCI WorldCom facilities also means these facilities will be more efficiently utilized, reducing unit costs. Fourth, the new WorldCom also will be better positioned to compete against foreign carriers as they increasingly enter U.S. markets.

The savings and efficiencies to be gained by directly terminating traffic overseas on WorldCom's (as opposed to the incumbent carrier's) facilities are similar to the savings and efficiencies to be gained domestically by terminating traffic on WorldCom's (as opposed to the ILEC's) facilities. By avoiding settlement costs for overseas termination and access charges for

domestic termination, the new company will be able to reduce its costs and lower its rates for international services. As a result, the new WorldCom will be a more effective competitor, and consumers in the United States and overseas will reap the benefits.

MCI WorldCom has already demonstrated these productive efficiencies from its merger last year. A mere two weeks following the consummation of the merger of MCI and WorldCom, the newly-combined company announced a new service, On-Net, designed to allow customers to combine voice and data traffic from local U.S. and international locations on a seamless, end-to-end network. MCI WorldCom's ability to offer such a service stems from its "local-to-global-to-local" network that relies on MCI WorldCom's extensive U.S. local services as well as its local network presence internationally.

This ability will be extended by the MCI WorldCom and Sprint merger. Enhancing local facilities operations both domestically and overseas will advance the success of those operations overall and promote U.S. leadership in global markets.

**V. The Merger Will Allow the New Company to Achieve Substantial Cost Savings Synergies.**

The merger will also produce substantial cost savings synergies that will readily serve the public interest. In the Bell Atlantic/NYNEX proceeding, and again in SBC/Ameritech, the Commission stated that synergies achievable through merger will be recognized as beneficial if they are merger-specific, are "sufficiently likely and verifiable," enhance the merged company's ability to compete, and "therefore result in lower prices, improved quality, enhanced service or

new products" rather than reduced output.<sup>199</sup> Further, any claims in savings or revenue enhancements must be net of any required investment.<sup>200</sup>

MCI WorldCom and Sprint believe that the synergies they have estimated are fully cognizable public interest benefits for the Commission's decision here. The cost savings detailed in the Affidavit of Wayne Rehberger and K. William Grothe, Jr.<sup>201</sup> and summarized below are very conservative estimates that were made for the purposes of presentations to the boards of directors of the respective companies as part of their consideration of the proposed transaction. Calculated with this perspective in mind (and with the knowledge that shareholders and financial analysts would be the final reviewers of these figures), the scope of the savings estimated was narrow and in every case carefully examined and documented. In this regard, it is important to note that the initial synergy estimates associated with the merger between MCI and WorldCom have in fact been exceeded. See Rehberger/Grothe Aff. ¶ 5.

WorldCom and Sprint estimate conservatively that they will be able to capture about \$2 billion in cost savings from the merger in the first full year of combined operations, growing to about \$4 billion in the fourth year of combined operations. See id. ¶ 7. These savings reside solely on the cost side, and solely with respect to long distance (including access) and wireless. No cost savings were estimated for Sprint's local division, as these operations are generally

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<sup>199</sup> See generally SBC/Ameritech Order ¶¶ 319-320; BA/NYNEX Order ¶¶ 168-176. The Commission's orders address the value of synergies in the context of weighing them against anticompetitive harms of those mergers. Here, the synergies are capturable without having to bear the counterweight of competitive harms.

<sup>200</sup> SBC/Ameritech Order ¶¶ 335-336.

<sup>201</sup> See generally Rehberger/Grothe Aff.

discrete from other operations. See id. ¶ 6. Synergies on the revenue side will also be captured, and while they were not quantified, they plainly add to the public interest benefits of the merger. See discussion supra Sections II.A. and III.

*Domestic access.* WorldCom and Sprint estimate substantial savings in both switched access and special access, totaling approximately (and conservatively) \$275 million in the first year of combined operations. These savings derive from: 1) the aggregation of long distance traffic that increases volume to allow for direct end office trunks in lieu of tandem switching costs, and 2) converting Sprint's entrance facilities to MCI WorldCom facilities. See Rehberger/Grothe Aff. ¶¶ 6-7. The first type of savings includes moving Sprint long distance traffic from tandem to direct trunks, as well as combining the tandem traffic of both companies to justify additional direct trunking arrangements. The second type of savings reflects the fact that Sprint currently uses ILEC facilities exclusively to move traffic between its points of presence and the serving wire center; as a result of the merger it will be able to utilize MCI WorldCom facilities in 102 cities to economically replace the ILEC facilities. Minimal additional build costs are required of the MCI WorldCom facilities to support this additional traffic. See id. Quite plainly, these savings are merger specific and will reduce the unit costs of the new company's long distance services. They are thus clearly in the public interest.

*International Interconnections.* Savings will accrue to the merged company by being able to move Sprint's international services off dominant foreign local carrier facilities onto MCI WorldCom facilities overseas. The total synergy estimated is \$50 million. See id. ¶ 8. Here too the synergies are merger specific and promote more efficient utilization of telecommunications networks, reducing unit costs. They also promote competitive facilities, owned by a U.S. company, in the face of incumbent PTT monopolies.



*ION related savings.* The combined company will be able to deploy Sprint ION far more efficiently as a result of the merger. As the Commission itself has recognized, Sprint ION will rely in part on DSL loops and the ability to collocate DSLAMs in ILEC central offices.<sup>202</sup> Sprint has relatively few collocations to date. In comparison, MCI WorldCom has its own collocated facilities in approximately 500 central offices and has plans to add 125 operational collocations by the end of 2000. In determining cost savings from the merger, the companies estimate that Sprint ION can use MCI WorldCom's existing collocation space and obtain synergies from such recurring costs as rent and power. (The savings in nonrecurring costs to establish collocation arrangements are reflected under capital expenditures, described below). See Rehberger/Grothe Aff. ¶ 12.

The merger also will result in cost savings by moving some of ION's backhaul (between central office collocations and Sprint's network) from DS-3s purchased from ILECs to MCI WorldCom fiber facilities. While some ILEC-provided DS-3 backhaul will still be required, the ability to move some ION backhaul traffic to existing MCI WorldCom fiber facilities will garner savings. Given projections of substantial future increases in ION traffic, these savings are likely to grow significantly over time.

These ION synergies, estimated at \$50 million, should be fully cognizable under the public interest standard. First, they promote advanced services deployment by reducing costs. Second, they make more efficient utilization of MCI WorldCom facilities, reducing unit costs. Finally, they promote competitive facilities and reduce the ability of large ILECs to delay ION collocation deployment. See id.

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<sup>202</sup> SBC/Ameritech Order ¶¶ 197, 203.

*Operations Products.* Cost savings accruing to telecommunications relay service (TRS), operator services (OS) and directory assistance services (DA) due to greater scale are expected. Sprint's long distance operations currently buy certain of these services from outside vendors; the combined use of existing MCI WorldCom facilities for these services will achieve a total unit cost reduction of \$45 million, or 5% of both companies' expenditures for these services. See id. ¶ 11. Obviously, these cost savings are specific to the merger as Sprint would have to undertake the cost of constructing the facilities itself in order to end its reliance on third party vendors.

*Sales, General & Administrative.* The merger will allow for cost savings in this area as well for both domestic and long distance services due to redundant capabilities here. Total estimated cost savings are \$1.3 billion. Id. ¶¶ 15-16.

*Capital Expenditure Savings.* A total of 1.3 billion dollars in savings has been estimated in this category, representing the ability to reduce capital investment for Sprint long distance, Sprint ION and additional backhaul facilities for Sprint PCS. These eliminated expenditures include any new construction for local fiber by Sprint no longer necessary in light of MCI WorldCom's local facilities; nonrecurring costs and other capital costs associated with Sprint collocation plans which can now be satisfied by sharing MCI WorldCom collocation space, and the ability of the merged company to use WorldCom facilities for the backhaul of wireless traffic. The elimination of depreciation and interest expense on these obviated investments cumulatively adds an additional savings of \$50 million in 2001. Id. ¶¶ 21-22.

The synergies demonstrated here, then, are merger specific, likely and verifiable and enhance the combined company's ability to offer consumers low-priced, innovative services. They plainly buttress the conclusion that the merger serves the public interest.

## **VI. Request for Procedural Considerations**

### **A. Request for Approval of Additional Authorizations**

As set forth in each of the transfer of control applications, Sprint controls entities that hold numerous Commission licenses and other authorizations. While the applications are intended to list all such authorizations, Sprint may now have on file, and may hereafter file, additional requests for authorizations for new or modified facilities, including notably the applications for two-way use of MMDS licenses once that filing window opens, which may be granted or remain pending during the pendency of this application. Accordingly, it is requested that the grant of the transfer of control applications include authority for MCI WorldCom to acquire control of:

- (1) any authorization issued to Sprint's subsidiaries during the Commission's consideration of the transfer of control applications and the period required for consummation of the transaction following approval;
- (2) construction permits held by such licensees that mature into licenses after closing and that may not have been included in the transfer of control applications; and
- (3) applications that are filed after the date of these applications and that are pending at the time of consummation.

Such action would be consistent with prior decisions of the Commission.<sup>203</sup> To the extent necessary, the Applicants also request authority to transfer the domestic 214 authority of Sprint's subsidiaries.

### **B. Request For Exemption From Cut-Off Rules**

Pursuant to Sections 21.23(c)(6), 22.123(a), 24.823(g)(3), 25.116(b)(3), 73.3521(a), 78.17, 90.164(b), and 101.29(c)(4) of the Commission's Rules, 47 C.F.R. §§ 21.23, 22.123,

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<sup>203</sup> See WorldCom/MCI Order ¶ 226; Applications of Craig O. McCaw and AT&T for Consent to the Transfer of Control of McCaw Cellular Communications, Inc. and Its Subsidiaries, 9 FCC Rcd. 5836, 5909 n.300 (1994) ("AT&T/McCaw Order").

24.823, 25.116, 73.352, 78.17, 90.164, and 101.29, the Applicants request a blanket exemption from any applicable cut-off rules in cases where Sprint's subsidiaries file amendments to pending applications to reflect the consummation of the proposed transfer of control. This exemption is requested so that amendments to pending applications to report the change in ultimate ownership of Sprint subsidiaries which are parties to these applications would not be treated as major amendments. The scope of the transaction between Sprint and MCI WorldCom demonstrates that the ownership change that would be reported would not be made for the acquisition of any particular pending application, but is part of a larger merger undertaken for an independent and legitimate business purpose. Grant of such application would be consistent with previous Commission decisions routinely granting a blanket exemption in cases involving similar transactions.<sup>204</sup>

### **C. Unconstructed Facilities**

Nearly all of the FCC authorizations covered by the transfer of control applications involve constructed facilities. However, certain facilities in the Personal Communications Service, the Point-to-Point Microwave Service, and other services are authorized but not yet constructed. The transfer of control of these unbuilt facilities does not implicate any of the Commission's anti-trafficking or unjust enrichment rules.

PCS. The PCS authorizations in which Sprint holds an interest were obtained through competitive bidding within the last three years. As required by Section 1.2111(a) of the

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<sup>204</sup> See, e.g., AT&T/McCaw Order at 5909 n.300, Applications of Centel Corporation and Sprint Corporation for Consent to the Transfer of Control, 8 FCC Rcd. 1829, ¶ 23 (1993); Applications of Airsignal International Inc. for Construction Permits in the Domestic Public Land Mobile Radio Service, 81 FCC.2d 472, ¶ 13 (1980).

Commission's Rules, a copy of the merger agreement is being filed, 47 C.F.R. § 1.2111(a). As noted above, the transaction involves a stock-for-stock exchange. The unjust enrichment provisions of the Commission's auction rules, 47 C.F.R. § 1.2111(b), (c) and (d), do not apply because the PCS authorizations were not obtained pursuant to set-asides or bidding credits for designated entities. The anti-trafficking rule for PCS authorizations, 47 C.F.R. § 24.839(c), does not apply because the PCS authorizations were not issued for frequency blocks C or F.

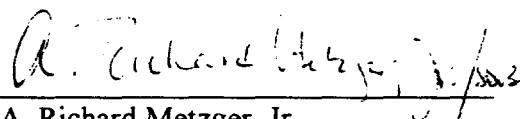
Microwave. The Commission's anti-trafficking rules for Part 21 and Part 101 authorizations, 47 C.F.R. §§ 21.39, 101.55(d), are not implicated, because the transfer of these unconstructed facilities is incidental to the larger transaction involving the transfer of control of an ongoing, operating business, and involves a stock-for-stock exchange based upon the valuation of Sprint as a whole.

Other. The merger parties request blanket authorization to transfer any other unconstructed facilities that may be implicated in the transfer of control as consistent with FCC rules allowing for the transfer of an on-going business.

## CONCLUSION

For the above reasons, and for the reasons set forth in the individual applications filed herewith, the proposed transaction complies with all applicable Commission rules, and will serve the public interest. The merger will create a strengthened competitor to well serve consumers in the next generation of telecommunications services. MCI WorldCom and Sprint accordingly urge the Commission to act promptly to grant these applications.

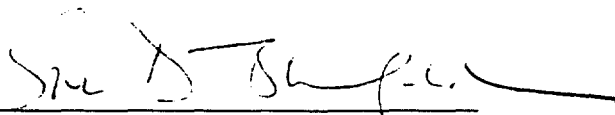
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